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ALGONQUIN BUILDING CREDITS LIMITED

TWELFTH ANNUAL REPORT

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1968

ALGONQUIN BUILDING CREDITS LIMITED
(Incorporated under the laws of Ontario)

Location of Head Office

76 St. Clair Avenue West
Toronto 7, Ontario

Directors

W. R. Abbott	Toronto, Ontario
C. H. Franklin	Willowdale, Ontario
E. R. Heald	Toronto, Ontario
T. H. Inglis	Etobicoke, Ontario
F. D. Lace	Toronto, Ontario
R. W. L. Laidlaw	Willowdale, Ontario
C. C. Laking	Willowdale, Ontario
W. B. Macdonald	Toronto, Ontario
G. I. MacKenzie	Toronto, Ontario
D. E. McQuigge	Toronto, Ontario
W. S. Miller	Port Credit, Ontario

Officers

C. H. Franklin	President
F. D. Lace	Vice-President
W. B. Macdonald	Vice-President
W. R. Abbott	Treasurer
F. M. Fell	Secretary
W. D. Siskawich	Assistant Secretary

Transfer Agent and Registrar

The Royal Trust Company
119 Adelaide Street West
Toronto, Ontario

Auditors

Clarkson, Gordon & Co.
Chartered Accountants
15 Wellington Street West
Toronto, Ontario

REPORT OF THE DIRECTORS
OF
ALGONQUIN BUILDING CREDITS LIMITED

Toronto, Ontario,
April 24, 1969.

To the Shareholders of
Algonquin Building Credits Limited:

The accompanying 1968 audited consolidated financial statements and audited consolidated pro forma balance sheet as at December 31, 1968 indicate that a turning point has been reached in the affairs of your Company.

As a result of the vigorous collection programme continued throughout the year, cash collections again exceeded expectations and the obligations of your Company to its bankers and secured note holders were reduced by $977,000 during the year.

Negotiations relating to the reorganization of your Company's debt securities and share capital commenced during 1968 and this reorganization has now been completed. Shareholders have been kept informed of the changes made and particulars are also set forth in the notes to the accompanying financial statements.

As a result of the reorganization, the indebtedness evidenced by your Company's collateral trust notes has been paid in full. Your Company's debentures have been converted to non-interest bearing debentures payable partly in cash and partly in class A 5¢ non-voting participating preference shares; and each of the old 6% cumulative redeemable preference shares has been converted into one common and one class A 5¢ non-voting participating preference share. Moreover, your Company can now enter into new business transactions.

Your Company recently established a line of credit with its bankers which enabled the purchase by your Company of the outstanding Canadian bank indebtedness of Hardee Farms International Ltd. aggregating in excess of $4,000,000. Of this sum approximately one-half was converted into 2,000,000 fully paid common shares of Hardee and the remainder which is evidenced by demand notes payable of Hardee, is secured by all of the collateral security previously held by Hardee's Canadian bankers.

Your directors are pleased to report that the rights issued to common shareholders of record March 31, 1969 to subscribe for one additional common share at $5.00 per share for each common share then held resulted in the issue of an additional 230,106 common shares for an aggregate purchase price of $1,150,530. This additional capital has been applied to reduce your Company's bank indebtedness to approximately $1,500,000.

It is now open for your Company to become more active in its present field of finance and in other areas of business endeavour as opportunities arise. Without the extraordinary assistance of your directors and officers and the continuing loyalty of your Company's employees, the major improvement in your Company's affairs could not have been achieved.

Respectfully submitted,

On behalf of the Board,

C. H. Franklin,
President.

Algonquin Building Credits Limited
(Incorporated under the laws of Ontario)

and its wholly-owned subsidiary
Algonquin Capital Corporation Limited

Consolidated Balance Sheet

December 31, 1968
(with comparative figures at December 31, 1967)

Assets

	1968	1967
CURRENT ASSETS:		
Cash	$ 188,325	$ 156,479
Instalment notes receivable (including amounts not due within one year of approximately $138,000 in 1968 and $503,000 in 1967) after allowance for doubtful accounts of $742,185 in 1968 and $833,324 in 1967 (note 1)	709,507	1,359,362
Sundry accounts receivable and prepaid expenses	44,788	59,649
Total current assets	942,620	1,575,490
MORTGAGES RECEIVABLE:		
Mortgages receivable over terms of up to fifteen years (including instalments due within one year of $402,000 in 1968 and $440,000 in 1967) after allowance for doubtful accounts of $185,477 in 1968 and $187,785 in 1967 (note 2)	1,629,698	2,134,181
FIXED ASSETS:		
Office equipment, at cost	44,652	49,172
Less accumulated depreciation	37,952	39,685
Total fixed assets	6,700	9,487
DEFERRED CHARGES:		
Unamortized debenture issue expense	47,099	54,614
Deferred mortgage acquisition costs		1,976
	47,099	56,590
	$2,626,117	$3,775,748

Liabilities

	1968	1967
CURRENT LIABILITIES:		
Bank loan—secured	$ 490,325	$ 937,245
Accounts payable and accrued charges	72,542	78,528
6⅞% Collateral trust notes, Series C, payable on demand (note 3)	177,132	424,215
6% Collateral trust notes, Series D, payable on demand		237,175
7% Collateral trust notes, Series E, payable on demand (note 3)	32,543	78,365
Total current liabilities	772,542	1,755,528
DEFERRED INCOME		
Unearned service charges on instalment notes receivable	9,645	61,255
Unearned interest on mortgages	92,661	138,825
Total deferred income	102,306	200,080
LONG TERM LIABILITIES (notes 3 and 5):		
7% Sinking fund debentures, Series A, maturing March 15, 1970	480,000	480,000
6¾% Sinking fund debentures, Series B, maturing August 1, 1983	588,000	588,000
6½% Debentures, Series C, maturing April 15, 1984	600,000	600,000
Total long term liabilities	1,668,000	1,668,000
SHAREHOLDERS' EQUITY:		
Capital (notes 3, 5, 6 and 7)—		
6½% cumulative, redeemable preference shares of $20 par value each:		
Authorized—25,000 shares		
Issued—25,000 shares	500,000	500,000
Common shares of no par value		
Authorized—300,000 shares		
Issued—205,106 shares (80,000 shares issued during 1968 for cash)	794,061	734,061
	1,294,061	1,234,061
Less commissions and expenses paid on issue of shares (less premiums received)	36,611	36,611
	1,257,450	1,197,450
Deficit	(1,174,181)	(1,045,310)
Total shareholders' equity	83,269	152,140
	$2,626,117	$3,775,748

(*see accompanying notes*)

On behalf of the Board:

C. H. FRANKLIN, Director W. R. ABBOTT, Director

Algonquin Building Credits Limited

and its wholly-owned subsidiary
Algonquin Capital Corporation Limited

Statements of Consolidated Profit and Loss and Consolidated Deficit

For the Year Ended December 31, 1968

(with comparative figures for the year 1967)

Consolidated Profit and Loss

	1968	1967
REVENUE:		
Earned service charges and other income	$ 255,524	$ 377,458
EXPENSES:		
General and administrative expenses	165,892	183,856
Costs of borrowing money	197,987	267,701
Provision for doubtful accounts	17,729	87,319
Amortization of mortgage acquisition costs		4,063
Depreciation	2,787	2,726
Total expenses	384,395	545,665
Net loss for the year	$ 128,871	$ 168,207

Consolidated Deficit

	1968	1967
Deficit at beginning of year	$1,045,310	$ 877,103
Add net loss for the year	128,871	168,207
Deficit at end of year	$1,174,181	$1,045,310

(See accompanying notes)

Statement of Consolidated Cash Receipts and Disbursements

For the Year Ended December 31, 1968

(with comparative figures for the year 1967)

	1968	1967
CASH RECEIPTS:		
Payments received on instalment notes receivable	$ 658,252	$1,240,446
Payments received on mortgages receivable	477,460	467,181
Interest payments received on interest-bearing mortgages	172,747	189,630
Income tax refund		38,831
Proceeds from sale of fixed assets		830
Sale of common shares	60,000	
	1,368,459	1,936,918
CASH DISBURSEMENTS:		
Reduction of senior debt	977,000	1,350,000
Interest on debt	197,987	267,359
General and administrative expenses	150,521	181,920
Advances re existing instalment notes and mortgages	11,105	37,090
	1,336,613	1,836,369
Increase in cash	$ 31,846	$ 100,549

Algonquin Building Credits Limited

Notes to the Consolidated Financial Statements
December 31, 1968

1. The following summary shows the status of the notes receivable at December 31:

		1968	1967
Accounts with instalments less than 30 days in arrears or with no arrears		$ 118,059	$ 529,151
Accounts with instalments in arrears for—			
30 to 59 days	40,550		82,524
60 to 89 days	37,642		49,983
90 days or more	1,255,441	1,333,633	1,531,028
		1,451,692	2,192,686
Less allowance for doubtful accounts		742,185	833,324
		$ 709,507	$1,359,362

2. The following summary shows the status of mortgages held by the subsidiary company at December 31, 1968:

	Accounts with instalments 90 days or more in arrears	Accounts with no arrears or with instalments less than 90 days in arrears	Total
Interest—included mortgages	$125,273	$ 240,849	$ 366,122
Interest-bearing mortgages	437,588	870,744	1,308,332
Other mortgages	128,100	9,021	137,121
	$690,961	$1,120,614	1,811,575
Sundry advances			3,600
			1,815,175
Less allowance for doubtful accounts			185,477
			$1,629,698

3. Subsequent events.

(i) Plan of reorganization—subsequent to the year end a plan of reorganization of the capital and debt structure of the company was approved by all interested parties and where applicable confirmed by supplementary letters patent dated March 7, 1969. The plan provides for:

(a) the creation of an additional 175,000 authorized common shares,

(b) the creation of 975,000 Class A 5¢ non-voting participating preference shares without par value,

(c) the conversion of the 25,000 authorized, issued and outstanding redeemable preference shares into 25,000 common shares plus 25,000 Class A preference shares, and

(d) the conversion of the $1,668,000 outstanding debentures into non-interest bearing debentures which mature in equal amounts of $333,600 on March 15 in each of the years 1969 to 1973 inclusive of which $133,440 of the $333,600 will be paid for in cash and the remaining $200,160 by the issue of 40,032 Class A preference shares.

(ii) Commitment—the Company has offered to purchase, for approximately $2,103,000, from the bankers of Hardee Farms International Ltd. bank indebtedness of Hardee which will total approximately $4,185,000. Contemporaneously with the acquisition of the bank indebtedness by Algonquin, Hardee under the terms of the offer, is to convert $2,000,000 of its bank indebtedness into 2,000,000 common shares. On the completion of the transaction Algonquin will have approximately $2,185,000 of debt of Hardee plus 2,000,000 common shares of Hardee.

(iii) Bank loan—the company arranged for a new bank loan of $2,700,000 in March 1969. The proceeds from the bank loan have been used to:

(a) repay the existing bank loan,

(b) redeem the Series C and Series E collateral trust notes, and

(c) pay the cash instalment on the non-interest bearing debentures due on March 15, 1969 of $133,440;

and $2,000,000 will be used to pay for the investment in Hardee referred to above, on the completion of the transaction. The new bank loan is secured by a pledge of the notes and mortgages receivable, plus the investment in Hardee.

(iv) Rights issue—The company plans to offer to its common shareholders the right to subscribe for one additional share at $5.00 per share for each share held as of March 31, 1969. If all of the rights are exercised the company will receive $1,150,530.

4. In addition to unearned service charges and interest of $102,306, the company will obtain income from interest bearing mortgages.

5. As a result of the reorganization referred to in note 3 above:
   (i) all rights to unpaid accumulated dividends on the 6½% preference shares have been terminated;
   (ii) interest on the debentures ceased to accrue as of February 6, 1969;
   (iii) all events of default on the debentures have been waived;
   (iv) the provision in the trust indentures relating to the collateral trust notes which provides that the company may not purchase or acquire mortgage or instalment obligations has been deleted;
   (v) the company can now enter into new business transactions.

6. In any fiscal year the 5¢ dividend on the Class A preference shares referred to in note 3(i) is to be paid before any dividend is paid on the common shares and each preference share is entitled to receive a dividend equal to the dividend declared on each common share subsequent to the payment of a 5¢ dividend on the preference shares and the common shares. The Class A non-voting preference shares rank equally with the common shares in all other respects.

7. At December 31, 1968 there were outstanding share purchase warrants (issued with the Series B debentures, the Series C debentures and the 15,000 6½% cumulative, redeemable preference shares issued in 1964) entitling the holders thereof to purchase an aggregate of 27,000 common shares at $14 per share to August 1, 1969.

8. Future income taxes of Algonquin Building Credits Limited and its wholly-owned subsidiary may be reduced by approximately $600,000 as a result of loss carry-forwards available at December 31, 1968.

Auditors' Report

To the Shareholders of
Algonquin Building Credits Limited:

We have examined the consolidated balance sheet of Algonquin Building Credits Limited and its wholly-owned subsidiary as at December 31, 1968 and the statements of consolidated profit and loss and deficit and consolidated cash receipts and disbursements for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and their cash receipts and disbursements for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
March 28, 1968.

Clarkson, Gordon & Co.
Chartered Accountants

Algonquin Building Credits Limited
(Incorporated under the laws of Ontario)

and its wholly-owned subsidiary
Algonquin Capital Corporation Limited

Consolidated Balance Sheet and Pro Forma Consolidated Balance Sheet
December 31, 1968

Assets	Balance Sheet	Pro forma balance sheet (note 1)
CURRENT ASSETS:		
Cash	$ 188,325	
Instalment notes receivable (including amounts not due within one year of approximately $138,000) after allowance for doubtful accounts of $742,185 (note 2)	709,507	$ 709,507
Sundry accounts receivable and prepaid expenses	44,788	44,788
Total current assets	942,620	754,295
MORTGAGES RECEIVABLE:		
Mortgages receivable over terms of up to fifteen years (including instalments due within one year of $402,000) after allowance for doubtful accounts of $185,477 (note 3)	1,629,698	1,629,698
INVESTMENT IN HARDEE FARMS INTERNATIONAL LTD., at cost		2,103,000
FIXED ASSETS:		
Office equipment, at cost	44,652	44,652
Less accumulated depreciation	37,952	37,952
Total fixed assets	6,700	6,700
DEFERRED CHARGES:		
Unamortized debenture issue expense	47,099	47,099
	$2,626,117	$4,540,792

Liabilities	Balance Sheet	Pro forma balance sheet (note 1)
CURRENT:		
Bank loan—secured (note 8)	$ 490,325	$2,700,000
Bank indebtedness		48,115
Accounts payable and accrued charges	72,542	72,542
Collateral trust notes payable on demand		
6⅞% Series C	177,132	
7% Series E	32,543	
Total current liabilities	772,542	2,820,657
DEFERRED INCOME:		
Unearned service charges on instalment notes receivable	9,645	9,645
Unearned interest on mortages	92,661	92,661
Total deferred income	102,306	102,306
Long term liabilities (note 4):		
7% Sinking fund debentures, Series A, maturing March 15, 1970	480,000	
6¾% Sinking fund debentures, Series B, maturing August 1, 1983	588,000	
6½% Debentures, Series C, maturing April 15, 1984	600,000	
Non-interest bearing Debentures		1,334,400
Total long term liabilities	1,668,000	1,334,400
SHAREHOLDERS' EQUITY:		
Capital (notes 4, 5, 6, and 8)—		
Authorized:		
Balance sheet—		
25,000 6½% cumulative, redeemable preferred shares of $20 par value each		
300,000 common shares of no par value		
Pro forma balance sheet—		
1,000,000 5¢ class A, non-voting, non-cumulative, participating preference shares without par value		
500,000 common shares without par value		
Issued:		
Balance sheet—		
25,000 preference shares	500,000	
205,106 common shares (80,000 shares issued during 1968 for cash)	794,061	
	1,294,061	
Pro forma balance sheet—		
65,032 preference shares 230,106 common shares		1,494,221
Less commissions and expenses paid on issue of shares (less premiums received)	36,611	36,611
	1,257,450	1,457,610
Deficit	(1,174,181)	(1,174,181)
Total shareholders' equity	83,269	283,429
	$2,626,117	$4,540,792

Algonquin Building Credits Limited
Notes to the Consolidated Balance Sheet and Pro Forma Consolidated Balance Sheet
December 31, 1968

1. The pro forma consolidated balance sheet gives effect as at December 31, 1968 to the following:
   (a) the reorganization of the capital and debt structure of the company by
      (i) the creation of an additional 175,000 authorized common shares,
      (ii) the creation of 975,000 Class A 5¢ non-voting participating preference shares without par value,
      (iii) the conversion of the 25,000 authorized, issued and outstanding redeemable preference shares into 25,000 common shares plus 25,000 Class A preference shares, and
      (iv) the conversion of the $1,668,000 sinking fund debentures outstanding into non-interest bearing debentures which mature in equal instalments of $333,600 on March 15 in each of the years 1969 to 1973 inclusive, of which $133,440 of the $333,600 will be paid for in cash and the remaining $200,160 by the issue of 40,032 Class A preference shares.
   (b) the acquisition of an interest in Hardee Firms International Ltd. consisting of
      (i) demand notes payable of approximately $2,185,000 (U.S. $1,764,000 and Canadian $285,000)
      (ii) 2,000,000 common shares of Hardee
   (c) the borrowing of $2,700,000 from the company's bankers (to be secured by a pledge of the notes and mortgages receivable, plus the investment in Hardee)
   (d) the repayment of the existing bank loan
   (e) the redemption of the Series C and Series E collateral trust notes
   (f) the payment of the cash instalment of $133,440 due on March 15, 1969 on the non-interest bearing debentures
   (g) the payment for the acquisition of the investment in Hardee referred to above.

2. The following summary shows the status of the notes receivable at December 31:

	1968		1967
Accounts with instalments less than 30 days in arrears or with no arrears..		$ 118,059	$ 529,151
Accounts with instalments in arrears for—			
30 to 59 days..	40,550		82,524
60 to 89 days..	37,642		49,983
90 days or more..	1,255,441	1,333,633	1,531,028
		1,451,692	2,192,686
Less allowance for doubtful accounts..............................		742,185	833,324
		$ 709,507	$1,359,362

3. The following summary shows the status of mortgages held by the subsidiary company at December 31, 1968:

	Accounts with instalments 90 days or more in arrears	Accounts with no arrears or with instalments less than 90 days in arrears	Total
Interest—included mortgages..................................	$125,273	$ 240,849	$ 366,122
Interest-bearing mortgages..................................	437,588	870,744	1,308,332
Other mortgages..	128,100	9,021	137,121
	$690,961	$1,120,614	1,811,575
Sundry advances..			3,600
			1,815,175
Less allowance for doubtful accounts..........................			185,477
			$1,629,698

4. As a result of the reorganization referred to in note 1(a) above:
   (i) all rights to unpaid accumulated dividends on the 6½% preference shares have been terminated;
   (ii) interest on the sinking fund debentures ceased to accrue as of February 6, 1969;
   (iii) all events of default on the sinking fund debentures have been waived;

(iv) the provision in the trust indentures relating to the collateral trust notes which provides that the company may not purchase or acquire mortgage or instalment obligations has been deleted;

(v) the company can enter into new business transactions.

5. In any fiscal year the 5¢ dividend on the Class A preference shares referred to in note 1(a) is to be paid before any dividend is paid on the common shares and each preference share is entitled to receive a dividend equal to the dividend declared on each common share subsequent to the payment of a 5¢ dividend on the preference shares and the common shares. The Class A non-voting preference shares rank equally with the common shares in all other respects.

6. At December 31, 1968 there were outstanding share purchase warrants (issued with the Series B debentures, the Series C debentures and the 15,000 6½% cumulative, redeemable preference shares issued in 1964) entitling the holders thereof to purchase an aggregate of 27,000 common shares at $14 per share to August 1, 1969.

7. Future income taxes of Algonquin Building Credits Limited and its wholly-owned subsidiary may be reduced by approximately $600,000 as a result of loss carry-forwards available at December 31, 1968.

8. The company plans to offer to its common shareholders the right to subscribe for one additional share at $5.00 per share for each share held as of March 31, 1969. If all of the rights are exercised the company will receive $1,150,530. The proceeds of the issue of the additional common shares will be used to reduce the company's bank loan.

Auditors' Report

To the Directors of
Algonquin Building Credits Limited:

We have examined the consolidated balance sheet and the pro forma consolidated balance sheet of Algonquin Building Credits Limited and its wholly-owned subsidiary as at December 31, 1968. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion:

(a) the accompanying consolidated balance sheet presents fairly the financial position of the companies as at December 31, 1968, and

(b) the accompanying pro forma consolidated balance sheet presents fairly the financial position of the companies as at December 31, 1968, after giving effect as at that date to the changes set forth in note 1 to the balance sheets,

both in accordance with generally accepted accounting principles applied on a consistent basis.

Toronto, Canada,
March 28, 1968

Clarkson, Gordon & Co.
Chartered Accountants